Elk's

Elks Stores Limited
Annual Report For The Year Ended January 31, 1976

Corporate Directory

OFFICERS

SAMUEL ELKIND
Chairman of the Board

MANUEL ELKIND
President and Chief Executive Officer

MELVYN A. STEIN
Vice-President – Finance and Administration

ARCHIE F. SWEETT
Vice-President – Operations

ROBERT E. CARDWELL
Vice-President – Merchandising

J. FREDRIC DUNCAN
Secretary

JOHN R. VAN CAMP
Controller

DIRECTORS

*LEWIS B. BAKER, Q.C.
Partner
Gordon, Hall, Baker and Goodman

*MANUEL ELKIND
President and Chief Executive Officer
Elks Stores Limited

SAMUEL ELKIND
Chairman of the Board
Elks Stores Limited

ROBERT R. HALL, Q.C.
Partner
Gordon, Hall, Baker and Goodman

PAUL HENRY
President
Henry, Richardson, Ruder and Finn Ltd.

*GEORGE S. MANN
President – Unicord Financial Inc.
Chairman of Executive Committee,
Unity Bank

PHINEAS SCHWARTZ
Partner
Goodman and Goodman

*member of audit committee

HEAD OFFICE
1198B Caledonia Road
Toronto, Ontario M6A 2W5

TRANSFER AGENT
United Trust Company

BANKERS
Bank of Montreal

AUDITORS
Laventhol and Horwath

LEGAL COUNSEL
Goodman and Goodman

SHARES LISTED
Toronto Stock Exchange

Elks Stores Limited and subsidiaries

Highlights

	THIS YEAR	LAST YEAR
SALES	$22,285,165	$21,682,404
NET INCOME		
Before extraordinary item	375,333	319,016
After extraordinary item	375,333	300,638
EARNINGS PER SHARE		
Before extraordinary item	0.51	0.43
After extraordinary item	0.51	0.41
CASH FLOW	1,216,792	1,022,072
CASH FLOW PER SHARE	1.64	1.38
WORKING CAPITAL	1,784,897	938,406
SHAREHOLDERS' EQUITY	3,258,067	2,882,674

President's Message

To our Shareholders:

Review

There was a significant improvement in both the profits and the prospects for our company in the twelve months ended January 31 1976, as a result of several changes in operating policy, and additions to administrative personnel. While sales for the year remained relatively constant, net income increased by close to twenty-five per cent to $375,333 or fifty-one cents per share from $300,638 or forty-one cents per share the previous year.

Throughout the fiscal period, the attention of management was directed primarily to consolidating the expansion and acquisitions of the previous three years. Operating systems and controls were examined closely with new procedures introduced and old ones made more effective.

As part of our corporate streamlining, senior and middle management was strengthened and our company was reorganized into three distinct divisions, ELKS STORES providing fashion goods at popular prices for the contemporary man, JOE FELLER STORES, medium to better priced high fashion clothes and DAPPER DAN, jeans and related goods for the youth market.

Major efforts were also directed to improving the quality of our inventories. We undertook massive inventory reductions in each of our operating divisions as a first step in the introduction of our new merchandising approach.

Inflationary pressures predominated throughout most of the year, primarily in the non-merchandising area. Their major impact was evident in the costs of supply items and in freight rates. In spite of these factors, we were able to achieve the profit improvement referred to previously. Working Capital nearly doubled to $1,785,000 from $938,000.

Summarizing the twelve months under review, our Company has significantly improved its administrative strengths, its corporate structure, its inventory mix, and its financial position. We feel, as a result of the achievements of the past year, we are now ideally poised to take advantage of the opportunities ahead.

Anti-Inflation Controls

We view the Government's objectives of controlling inflation as vital to our economy. The system of controls, however, present some problems in their implementation. Our base year was not representative of our Company and we are currently conducting discussions with the Board to determine reasonable alternatives which would enable us to comply with the Board's objectives yet provide suitable returns on our sales and investment.

Future

At the present time we are looking to improvement of sales and profitability in our existing stores. By concentrating on the further development of our improved merchandise mix and capitalizing on the maturing of our newer locations we feel our goals to be attainable. The current market dictates a policy of providing the best values in high fashion for the modern generation. This merchandising philosophy has been ours from the start and we now have the necessary ingredients to follow through. We have the locations, the personnel and market image to produce ever-increasing sales and profitability in the years ahead.

Late this past year we welcomed to our Company Melvyn A. Stein as Vice-President of Finance and Administration and Robert E. Cardwell as Vice-President Merchandising and Marketing and, early in 1976 Herman N. Goldman as General Manager of our Joe Feller Division. These gentlemen bring exceptional experience to our Company and were most helpful in the corporate reorganization and in the strengthening of our middle management team.

We particularly want to express our appreciation to our suppliers and our personnel who responded to the challenges confronting them during the recent period of transition, and on behalf of the Board I express our gratitude for their dedication and loyalty.

Manuel Elkind
President & Chief Executive Officer.

May 21, 1976

Elks Stores Limited and subsidiaries

Consolidated Statement of Income and Retained Earnings

Year ended January 31, 1976

	1976	1975
Sales	$22.285,165	$21,682,404
Expenses:		
Cost of sales and operating expenses	20,145,074	19,854,322
Depreciation and amortization	847,662	623,561
Interest on long-term debt	243,428	239,952
Other interest	298,337	298,553
	21,534,501	21,016,388
Income before taxes and extraordinary item	750,664	666,016
Income taxes	375,331	347,000
Income before extraordinary item	375,333	319,016
Extraordinary item	—	18,378
Net income	375,333	300,638
Retained earnings, beginning of year, as restated (Note 12)	1,557,714	1,257,076
Retained earnings, end of year	$ 1,933,047	$ 1,557,714
Earnings per share (Note 9):		
Income before extraordinary item	51¢	43¢
Net income	51¢	41¢

See accompanying notes.

Consolidated Balance Sheet

January 31, 1976

ASSETS

	1976	1975
Current:		
Cash	$ 567,628	$ 258,025
Accounts receivable	1,327,363	1,259,995
Inventory	6,450,641	6,740,297
Prepaid expenses and sundry assets	366,247	255,305
	8,711,879	8,513,622
Equipment and leasehold improvements (Note 2)	3,635,485	3,345,438
Other:		
Deferred costs (Note 3)	522,157	541,642
Sundry	68,162	50,162
	590,319	591,804
	$12,937,683	$12,450,864

See accompanying notes.

On behalf of the Board:

MANUEL ELKIND *(Director)*

GEORGE S. MANN *(Director)*

LIABILITIES

	1976	1975
Current:		
Bank indebtedness (Note 4)	$ 2,000,000	$ 1,600,000
Accounts payable and accrued liabilities	4,285,009	5,277,939
Income taxes	279,973	178,129
Current portion of long-term debt (Note 5)	362,000	519,148
	6,926,982	7,575,216
Long-term debt (Note 5)	2,458,032	1,692,169
Deferred income taxes	294,602	300,805
SHAREHOLDERS' EQUITY		
Capital stock (Note 6)	1,325,020	1,324,960
Retained earnings (Note 12)	1,933,047	1,557,714
	3,258,067	2,882,674
	$12,937,683	$12,450,864

AUDITORS' REPORT

To the Shareholders of
Elks Stores Limited

We have examined the consolidated balance sheet of Elks Stores Limited and its subsidiaries as at January 31, 1976 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at January 31, 1976 and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
May 11, 1976.

LAVENTHOL AND HORWATH
Chartered Accountants.

Consolidated Statement of Changes in Financial Position

Year ended January 31, 1976

	1976	1975
Financial resources were provided by:		
Working capital provided from operations, before extraordinary item (Note 10)	$ 1,216,792	$ 1,022,072
Issue of common shares	60	420
Increase in long-term debt	360,000	—
	1,576,852	1,022,492
Financial resources were used for:		
Additions to fixed assets	824,509	1,235,891
Less increase in long-term debt	625,517	1,006,853
	198,992	229,038
Deferred costs	293,715	302,945
Repayment on long-term debt	219,654	723,100
Loss on disposal of marketable securities	—	18,378
Purchase of long-term investments	18,000	18,000
	730,361	1,291,461
Increase (decrease) in working capital (Note 11)	846,491	(268,969)
Working capital, beginning of year, as restated (Note 12)	938,406	1,207,375
Working capital, end of year	$ 1,784,897	$ 938,406

See accompanying notes.

Notes to Consolidated Financial Statements

January 31, 1976

1. Summary of significant accounting policies:

Principles of consolidation:

The consolidated financial statements include the accounts of the company and its subsidiary companies, all of which are wholly-owned.

Inventory:

Inventory is valued at the lower of cost and net realizable value determined by the retail method.

Equipment and leasehold improvements:

These assets are stated at cost. Depreciation is being provided on equipment on a straight-line method over a seven-year period. Leasehold improvements are being amortized over the terms of the leases and initial options to a maximum of 10 years.

Pre-opening costs – new stores:

It is the company's accounting policy to capitalize as deferred costs certain expenditures related to new store openings. These costs are amortized over a thirty-six month period commencing with the date of the store opening.

Display costs:

Display expenses are capitalized as deferred costs and are amortized over a three-year period commencing in the first fiscal year following the year of acquisition.

2. Equipment and leasehold improvements:

	Current year	Previous year
Equipment	$2,639,225	$2,334,858
Leasehold improvements	3,267,551	2,849,258
	5,906,776	5,184,116
Accumulated depreciation and amortization	2,271,291	1,838,678
	$3,635,485	$3,345,438

3. Deferred costs:

Deferred costs amortized during the current year and included in the consolidated statement of income and retained earnings amount to $313,200 (previous year – $184,288).

4. Bank indebtedness:

Bank indebtedness and bank loans shown in Note 5 are secured by a floating charge debenture on all the company's assets.

5. Long-term debt:

	Total	Current portion	Long-term
Bank loans, 2% above bank prime	$2,100,000	$300,000	$1,800,000
Shareholders, 11½%, due June 30, 1977	360,000	—	360,000
Promissory note, 7%, due June 1, 1977*	37,579	—	37,579
Promissory note, 7%, due June 1, 1977	271,168	50,000	221,168
Mortgage payable, 9%, due June 12, 1980	44,167	10,000	34,167
Conditonal sales contract	7,118	2,000	5,118
	$2,820,032	$362,000	$2,458,032

Principal payments required in each of the next five fiscal years are as follows:

Year ended – January 29, 1977	$ 362,000
January 28, 1978	1,002,747
January 27, 1979	528,000
January 26, 1980	527,118
January 25, 1981	400,167
	$2,820,032

Although the bank loans of $2,100,000 are evidenced by demand promissory notes, arrangements have been made with the bank to retire the principal amount of the loan at the rate of $25,000 per month.

*The promissory note payable to the vendors of Joe Feller Limited has been reduced by an amount of $62,421. This reduction results from a guarantee of the accounts receivable at date of acquisition and the costs related thereto. This reduction has been disputed by the vendors.

6. Capital stock:

Authorized:

2,000,000 Common shares, without par value

Issued:

	Number of shares issued	Amount
Balance, January 25, 1975	740,348	$1,324,960
Shares issued during year on exercise of stock option	8	60
Balance, January 31, 1976	740,356	$1,325,020

Employee stock option plans:

The company has set aside 43,214 common shares for its employee stock option plans. These stock options are exercisable at prices ranging from $6.75 to $13.50 over the next ten years.

Employee stock purchase plan:

The company has agreed to provide an interest-free loan to a key employee to purchase 10,000 common shares from treasury at $7.50 per share. The terms of the loan require a 10% deposit with the balance repayable over nine years in equal annual instalments of $7,500.

7. Remuneration of directors and senior officers:

The aggregate direct remuneration for the year paid or payable to directors and senior officers amounts to $164,374.

8. Long-term lease obligations:

All of the company's store locations are held on leases entered into for periods from three to twenty-five years. Most of these leases are for minimum rentals and contain percentage-of-sales clauses. The minimum annual rentals for the next five years on long-term leases in effect at January 31, 1976 are:

Year ended – January 29, 1977	$1,555,000
January 28, 1978	1,523,000
January 27, 1979	1,454,000
January 26, 1980	1,408,000
January 25, 1981	1,324,000

9. Earnings per share:

Earnings per share figures were calculated using the weighted daily average of shares outstanding during the respective year. Average number of shares outstanding during the 1976 fiscal year was 740,356 (1975 – 740,348). No material dilution in earnings per share would result from the exercise of employee stock options and purchases.

10. Working capital provided from operations:

	Current year	Previous year
Income before extraordinary item	$ 375,333	$ 319,016
Add items not involving a current outlay of working capital:		
Depreciation and amortization	847,662	623,561
Deferred income taxes	(6,203)	79,495
	841,459	703,056
	$1,216,792	$1,022,072

11. Changes in components of working capital:

	Current year	Previous year
Increase (decrease) in current assets:		
Cash	$309,603	$ (128,607)
Accounts receivable	67,368	217,248
Inventory	(289,656)	580,857
Prepaid expenses and sundry assets	110,942	59,695
Marketable securities	—	(180,000)
	198,257	549,193
Increase (decrease) in current liabilities:		
Bank indebtedness	400,000	—
Accounts payable and accrued liabilities	(992,930)	1,077,940
Income taxes	101,844	(12,926)
Current portion of long-term debt	(157,148)	(246,852)
	(648,234)	818,162
Increase (decrease) in working capital	$846,491	$ (268,969)

12. Restatement:

On the acquisition of Joe Feller Limited in 1972, an amount of $76,574 was credited to retained earnings as the excess of book value at date of acquisition over cost. On settlement with the vendors in 1975, it was determined that this amount should have been $25,574. Accordingly, the retained earnings account at February 1, 1974 has been adjusted to effect this change, with a corresponding adjustment to accounts receivable.

13. Anti-inflation legislation:

The company is subject to restraints on prices, profits, compensation and dividends under the Federal Government's Anti-Inflation Act, which became effective October 14, 1975. Although certain general uncertainties presently exist concerning the implementation of this program, the company believes that it was in compliance with the program in all respects for the current fiscal year.

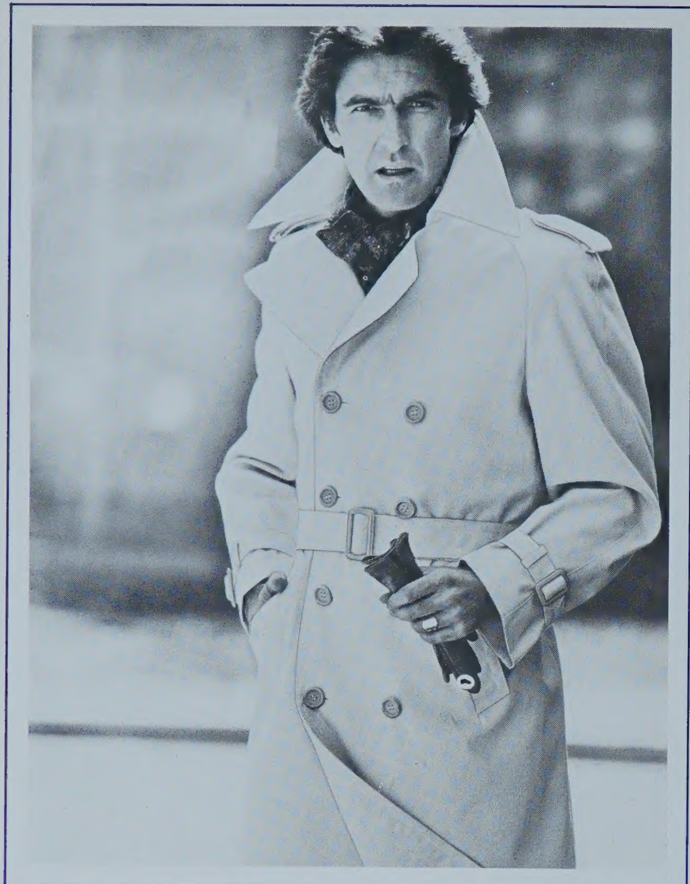
Elks Stores Limited and subsidiaries

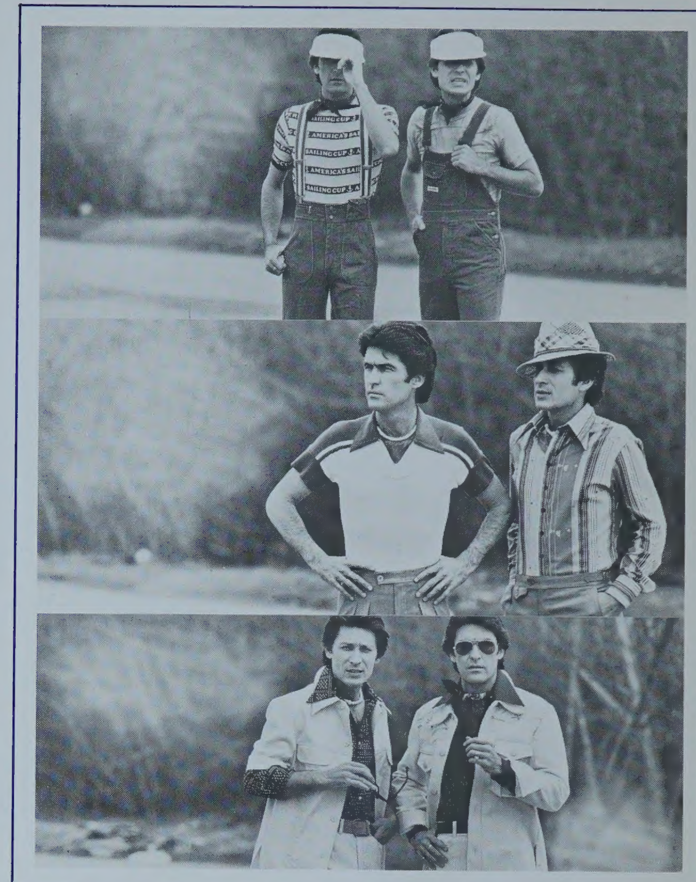
Five Year Summary
(000's omitted)

	1975	1974	1973	1972	1971
Sales	22,285	21,682	17,647	11,982	9,263
Net profit	375	301	598	535	354
Earnings per share*	0.51	0.41	0.81	0.90	0.65
Cash flow	1,217	1,022	1,111	751	506
Cash flow per share*	1.64	1.38	1.50	1.26	0.93
Number of shares outstanding at year end (000s)	740	740	740	740	545
Inventory	6,451	6,740	6,159	3,625	2,632
Additions to fixed assets	825	1,236	1,490	664	302
Total assets	12,938	12,451	10,968	6,128	4,269
Bank indebtedness	2,000	1,600	1,600	990	233
Accounts payable	4,285	5,277	4,200	1,741	2,737
Long term debt	2,458	1,692	1,408	471	70
Shareholders' equity	3,258	2,883	2,582	2,408	779
Working capital	1,784	938	1,207	1,517	(188)
Working capital ratio	1.3	1.1	1.2	1.4	0.9
Number of stores at year end	67	66	58	41	39
Number of square feet of retail space	296	292	258	205	183

* Based on weighted average number of shares outstanding.

For comparative purposes, figures for past years where applicable have been restated to reflect accounting methods employed in 1975.





Elks Stores Limited